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Message Text

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PAGE 01 STATE 243470

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C O N F I D E N T I A L STATE 243470

EXDIS FOR ASSISTANT SEC ENDERS

FOLLOWING REPEAT CARACAS 10671 ACTIONSECSTATE DTD 11 OCT

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C O N F I D E N T I A L CARACAS 10671

EXFIS

EO 11652 GDS
TAGS: ENRG PFOR VE
SU': OI REVERSION CHEVRON
REF: CARACAS 10317

1. SUMMARY. CHVRON OIL COMPANY HAS OPERATED CONCESSIONS IN VENEZUELA FOR THIRTY YEARS. THE COMPANY CLAIMS TO PRODUCE THE HEAVIEST CRUDE, WITH THE HIGHEST VANADIUM AND SULFUR CONTENT. CHEVRON HAS NO OTHER OIL COMPANIES PARTICIPATING IN ITS CONCESSIONS, NO OVERRIDING ROYALTY HOLDERS, NO UNITIZATION AGREEMENTS, AND NO "NEW" (1957) CONCESSIONS WHERE THE EXPLORATION EXPENSES HAVE NOT BEEN AMORTIZED. IT ALS HAS NO WORKER'S BENEFIT OBLIGATIONS OF CONSEQUENCE, HAVING PAID THE MAJORITY OF ITS WORKERS SUCH BENEFITS OVER THE PAST TWO YEARS IN ANTICIPATION OF NATIONALIZATION,- AND IN ACCORDANCE
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PAGE 02 STATE 243470

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

WITH THEIR DESIRES. CHEVRON MANAGER, EE HAGAN, WHO HAS
JUST RETURNED FROM CONSULTATION IN SAN FRANCISCO, STATED THAT
HIS COMPANY IS NOT PREPARED TO ACCEPT A TECHNICAL ASSISTANCE
FEE OF ONLY EIGHT CENTS PER BARREL. SOCAL'S PARTICIPATION IN
ARAMCO IS THE KEY TO VENEZUELAN NEGOTIATIONS. CHEVRON SOMEHOW
FEURS JEOPARDIZING ITS POSITION IN SAUDE ARABIA BY
ACCEPTING A LESS FAVORABLE SETTLEMENT HERE. HAGA
CLAIMED CHEVRON' S 30,000 B/D MINIMUM PRODUCTION (THE
COMPANY HAS A CAPACITY FOR 50,000) CONTRIBUTES $100 MILLION IN
REVENUE TO THE GOV ANNUALLY. THE HEAVY CRUDE IS DIFFICULT
TO MARKET. FOR THESE REAUONS, HAGAN BELIEVES THE CHEVRON
POSITION IS UNIQUE IN THE VENEZUELAN OIL INDUSTRY, AND
THE GOV WILL WISH TO REACH AN ACCOOMMODATION WITH THE COMPANY.
HAGAN SAID THAT CHEVRON IS RESERVING ITS RIGHT TO GO
THRU THE EXPROPRIATION PROCESS,AND BEYOND(WORLD COURTY
AND ATTACHING VENEZUELAN OIL SIPENTS TO THE US), IF
THE COMPENSATION SETTLEMENT IS NOT SATISFACTORY. CHEVRON
HAS GONE THIS LATTER ROAD BEFORE IN PERU AND LIBYA, HAGAN
ADDED. END SUMMARY.

2. CHEVRON CONCESSION CHEVRON OPERATES THE BOSCAN FIELD
SOUTHWEST FROM MARACIABO AND ILAND TO THE WEST OF LAKE
MARACAIBO. BOSCAN CURDE IS QP API GRAVITY, OR HEAVIER THAN
THE ORINOCO CURDE PRODUCED BY PHILLIPS AND AMOCO IN EASTERN
VENEZUELA. THE CRUDE IS ALSO CHARACTERIZED AS HAVING THE
LARGEST METAL CONTENT (1200 PARTS VANADIUM PER MILLION) AND
SULFUR (5.5 PERCENT BY WEIGHT) OF ANY OIL IN VENEZUEA.
THE CONCESSION HAS A 50,000 B/D CAPACITY FROM 220 WELLS.
PRESENT PRODUCTIONS IS ABOUT 37,000 B/D BECAUSE OF REDUCED
DEMAND FOR ASPHALT IN THE US, WHICHIS THE LARGEST SINGLE
MARKET FOR THIS OIL. CHEVRON OWNS AND OPERATES THE BAJO
GRANDE REFINERY (62,000 B/D CAPACITY) AND THE RICHMOND
TERMINAL NEARBY ON THE WEST BANK OF THE LAKE.

3. CHEVRON'S MAJOR PROBLEM HERE IS THE SMALL SIZE OF ITS
OPERATION. THE CO. HAS CRRIED OUT EXTENSIVE EXPLORATION
OVER THE YEARS, BUT HAS ONLY THE BOSCAN CURDE AND A
SMALL QUANTITY OF IGHT CURDE TO SHOW FOR ITS EFFORTS.
THE SMALL SCALE OF ITS OPERATIONS HAS RESULTED IN CHEVRON
BEING PLAEED IN THE EIGHT CENT PER BARREL CATEGORY OF
TECHNICAL ASSISTANCE FEES BEING OFFERED BY THE OGV.
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OTHERWISE, THE CO. IS REMARKABLY FREE OF THE PROBLEMS
FACING MAY OF THE OTHER COMPANIES IN ARRIVING AT A COMPEN-
SATION FIGURE. CHEVRON HAS NO PARTNERS PARTICIPATING IN
ITS CONCESSIONS, NO OVERRRIDING ROYALTY HOLDERS, NO UNITIZATION
AGREEMENTS WITH CVP, AND NO 1957 CONCESSIONS WHERE A
SIGNIFICANT PORTION OF THE OIL STILL REMAINS ANDPREMIUM
BONUSES HAVE NOT BEEN AMORTIZED.

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4. THE COMPANY ALSO DID NOT HAVE TO DEPOSIT A LARGE AMOUNT
OF WORKERS BANEFITS INTO TRUST FUNDS OR THE CENTRAL BANK.
HAGAN SAID THAT HIS COPMANY ADOPTED THE 2PHILLIPS PLAN"
ABOUT TWO YEARS AGO,WHEREBY COPMANY WORKERS COULD ELECT
TO "RETIRE" AND COLLECT THIER BENEFITS, AND THEN BE "REHIRED"
PRIOR TO NATIONALIZATION. LESS THAN ONE HUNDRED OUT OF THE 350
TOTAL EMPLOYEES CHOSE NOT TO EXARCISE THIS OPTION. THE
MAJORITY COLLECTEDTHEIR DOUBLE BENEFITS, FOR WHICH THEY WERE
ELIBILE UNDER THE LAXOR LAW AFTER SIX YEURS EMPLOYMENT.
HAGAN SAID THAT THEY WILL BE ELIGIBLE FOR A SECOND DOUBLE RETIRE-
MENT BENEFIT BETWEEN FOUR AND FIVE YEARS AFTERNATIONALIZATION.

5. COMPENSATION - AS A RESULT OF ITS LONG TENURE HERE,
CHEVRON'S NET BOOK VALUE IS DOWN TO $12 MIIOIN. THE COMPANY
HAS $1.5 MILLION ON DEPOSIT IN THE GUARANTY FUND, WHICHIT WILL
RETRIEVE AFTER JAN 1, 1976. AT THAT TIME IT WILL HAVE TO DEPOSIT
$9 MILLION IN COMPENSATION BONDS INTO THE GUARANTY FUND.

6. HAGAN SAID THAT THE EIGHT CENT FEE IS INADEQUATE IN SOCAL'S
VIEW. THE COMPANY SEEMS TO THINK THAT THE PRECEDENT OF ACCEPTING
REIMBURSEMENT AT THAT LEVEL COULD SOMEHOW JEOPARDIZE ITS
ARRANGEMENTS IN SAUDI ARABIA. CHEVRON DOES NO NEED THE BOSCAN
CURDE BECAUSE THE COMPANY IS IN A STRONG CURDE POSITION WORLDWIDE
AND BECAUSE THEUS MARKET FOR ASPHALT IS DOWN 20 PERCENT THIS
YEAR. SOCAL HAS CONSIDERED TELLING THE GOV THAT THE SLIDING SCALE IS
UNACCEPTABLE AND OFFIERING A COUNTER-PROPOSAL ON AN ENTIRELY
DIFFERENT BASIS OF REIMBURSEMENT. HOWEVER, IT WAS FINALLY
DECIDED IN SAN FRANCISO TO DROP THAT CHEDME AND SIMPLY PUSH
INSTEAD FOR A HIGHER FEE CATEGORY WITHIN THE BASIC GOV PROPOSAL.
7. COMMENT: WE ARE AT A LOSS TO UNDERSTAND WHY CHEVRON HAS
CONTINUED TO DELAY TELLING THE GOV NEGOTIATORS THAT EIGHT CENTS
IS UNACCEPTABLE. HAGAN MET AGAIN WITH VALENTIN HARNANDEZ
LAST NIGHT. WE ASKED HIM TODAY IF HE HAD MADE THAT POINT. HE
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PAGE 04 STATE 243470

SAID NO, THAT HE HAD MERELY NOTED THAT CHEVRON WAS WORKING ON
A PROPOSAL WHICH WOULD BE SUBMITTED SOON. IN ANY EVENT,
CHEVRON LOOKS LIKE A PROBLEM CASE FOR TH GOV.
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